GRAHAM SCOTT ENNS LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

P. 519-633-0700 · F. 519-633-7009
450 Sunset Drive, St. Thomas, ON N5R 5V1

P. 519-773-9265 · F. 519-773-9683
25 John Street South, Aylmer, ON N5H 2C1

www.grahamscottenns.com

In this edition:

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

TAX TICKLERS… some quick points to consider…

- An individual may go back, up to 10 years to access Disability Tax Credits, as well as certain other items, if not previously claimed.
- Scientific Research & Experimental Development credits may be available where a business invests funds to improve manufacturing efficiency.
- The Federal Government has proposed changes which may make the sale of goodwill more costly in the future.

Contact us if you have questions or wish to discuss!

FAMILY TAX CUT: Income Splitting and Other Benefits for Families with Children

On October 30, 2014, Prime Minister Stephen Harper announced **personal tax changes** with respect to families. These changes were passed into law on December 16, 2014.

- The **Family Tax Cut** is a new **non-refundable credit**. Essentially, you get a Federal tax credit intended to simulate the annual Federal tax benefit of **income splitting** with a **lower income spouse** to a maximum transfer of $50,000 and a maximum tax benefit of $2,000.

  This will start on **2014** personal tax returns.

  To be **eligible** for the credit, you must meet all of the following criteria:
  - be **married** (including **common-law** partners) to a Canadian resident at the end of the year;
  - have a **child under age 18** who resides with you;
  - **not** make a **pension splitting** election (either spouse);
  - **file** a return (both spouses);
  - be **resident** in Canada;
  - **not** become **bankrupt** in the year; and
  - **not** be **incarcerated** for a 90 plus day period in the year.

Tax Tips & Traps

- Universal Child Care Benefit (**UCCB**) payments will be **increased** by **$60 per month** for all children **under age 18** (so you get $160 per month for children under age 6 and $60 per child age 6 to 17). This is effective **January, 2015** but payments will not begin until **July, 2015**. A **Canada Child Benefits Application Form** will be required for parents who have not previously completed such a Form to get other benefits, or for those whose situation has changed.

- The **Child Tax Credit** (worth $338 per child under age 18 in 2014) will be **eliminated** in 2015. Instead of a $338 Federal tax credit, the taxpayer will receive $720 ($60 per month as indicated above) in new UCCB payments to be reported by the lower income spouse. Even at a 50% tax rate, the taxpayer will still be ahead. The enhanced portion of the credit for an **infirm child** will remain available, despite the base credit being eliminated.

- The annual limit on **Child Care Expenses** will increase to $8,000 per child under age 7, $5,000 per child age 7 to 16, and $11,000 per disabled child, a bump of **$1,000 per child** in each category. This will also be **effective in 2015**.

- The **Fitness Tax Credit** doubles in 2014. For eligible expenses of $1,000, a Federal credit of $150 is obtained ($1,000 @ 15% = $150). This credit will become refundable in 2015. “Refundable” means that in situations where less than $150 in tax is assessed, federal taxes will be reduced to $0 and the unused portion of the credit will be refunded to the taxpayer. The Arts Tax Credit remained unchanged.

Action Item: ***Ensure your children, aged 17 and under, are registered for UCCB.***

CANADA JOB GRANT: Government Funds Available to Train Employees

This Grant is available to employers to help **train new** or **existing employees** for jobs that need to be filled. The program is not restricted to technical training, but is also open to professional and management development. Two-thirds of the cost of the training, to a maximum government contribution of **$10,000 per employee** application, is **available**. The Grant must be reported as revenue on the employer’s tax return. This program is available to most sizes of employers. The application, however, must generally be **approved prior to engaging in the training program**.

As the Grant is **administered** at the **provincial/territorial level**, there are differences in administration and eligibility rules across the country. Some of the aspects which may vary include:

- whether the training must result in a **credential**;
- whether the program must last a **minimum number of hours**;
- whether **salaries** paid to participants may count towards the employer’s share;
- whether the training must be **incremental** to normal training programs;
- the **funding limit** per organization;
- what **costs** qualify (tuition, books, travel etc.); and,
- whether the individual has to be an **employee** before and after the application.

The Grant is **available** in **most provinces** and territories across the country (except for Quebec, New Brunswick, and Nunavut, as of the date of publication).

Action Item: ***As there are limited government funds allocated to the program annually, ensure to apply for funding before the money runs out!***

DISABILITY TAX CREDIT: Make sure to Apply!

Individuals who have a **severe** and **prolonged impairment** in **physical** or **mental functions** may **apply** for the disability tax credit (**DTC**). The **federal** tax credit is valued at over $1,100 (15% x 7,766) in 2014, with the possibility of an additional disability supplement for certain individuals under the age of 18 at the end of the year. **Provincial** tax credits may also be available.

The DTC is a **non-refundable tax credit** used to reduce income tax payable on an individual’s income tax return. All or part of this amount may be **transferred** to an individual’s **spouse** or **common-law partner**, or another supporting person.

Being eligible for the DTC can open the door to other federal, provincial, or territorial programs such as the **registered disability savings plan**, the **working income tax benefit**, and the **child disability benefit**.

For individuals that may have been eligible for the DTC for a number of years, but have not applied, taxpayer relief may be an option to access these credits for the prior 10 years.

Action Item: ***If you think you may be eligible for this generous DTC, contact us to discuss.***

EMPLOYMENT EXPENSES: Are You Eligible?

An individual can **deduct certain expenses** they paid to earn employment income if they meet certain conditions including:

- their **employment contract** required them to pay the amount; and,
- they **did not receive an allowance** for the expenses or the allowance they received is reported as income.

Employees must obtain a signed **T2200**, Declaration of Conditions of Employment, from their employer to deduct employment expenses from their income.

Eligible employment expenses are quite **limited**. However, they may include, for example, **motor vehicle expenses**, **supplies**, and **certain work space in the home** if you meet particular criteria. Additional expenses may be available to commissioned salespersons.

Action Item: ***Obtain a signed Form T2200 from your employer before deducting employment expenses.***

GOVERNMENT COLLECTION POLICIES: When You Owe the Government Money Other than Taxes

CRA collects amounts owed for not just tax programs, but also for other government programs, including, for example:

- defaulted **Canada Student Loan**;
- **Employment Insurance** overpayment;
- **Canada Pension Plan** overpayment;
- **Old Age Security** overpayment;
- **Labour Program** receivable; and
- other Employment and Social Development Canada (**ESDC**) programs.

On November 1, 2014, CRA provided a general overview of the **Government Programs Collection Policy** for individuals, businesses and organizations that **owe money other than taxes** to the Crown.

They noted that amounts owed to the Government of Canada are **payable in full** without delay although, if a taxpayer cannot pay the total amount or the minimum payment owing on their statement of account immediately, they could **contact the Revenue Collections and Client Services Division** with respect to making **payment arrangements**.

CRA also noted that if amounts are not paid voluntarily, CRA may take **legal action** to:

- **recover** amounts from any benefits or other applicable credits they may receive from **ESDC**;
- **recover** from credits the **Crown** may owe to the taxpayer such as **income tax refunds** and/or **GST/HST credits**;
- **garnishee** income sources and/or bank accounts; or
- use **any other means** under any applicable statutes or law to collect an amount owing.

Garnishment action allows the Government to **intercept funds** payable to the taxpayer by a third party, such as a taxpayer's employer, bank, or other sources of income.

Similarly, if any other Federal Government department owes the taxpayer money, a **statutory set-off** to that department may be made to have all, or part, of that money sent to the department to which the taxpayer is indebted.

Action Item: ***If you are struggling to pay your Government debts, contact us sooner, rather than later as options may be available.***

GST/HST AND TAXABLE BENEFITS: Impact on Employee and Employer

The provision of **some benefits** to employees may be subject to **GST/HST**. Essentially, the CRA wants to ensure that the **same amount** of GST/HST is paid whether an employee purchases a good or service on his/her own, or whether he/she receives it from his/her employer.

When providing the benefit, the employer must first determine if it is subject to GST/HST. If so, the tax must be calculated and **remitted on the GST/HST tax return** that covers the last day of February in the following year.

The GST/HST is then **included** in the **value of the benefit** on the **T4** for the employee.

Taxpayers can usually claim an **input tax credit** for the GST/HST paid or payable on goods and services supplied to employees or their relatives as a benefit if it is related to the business' commercial activities.

Guide T4130 (Chapter 5) – Employers Guide, Taxable Benefits and Allowances is a resource which discusses the GST/HST requirements for employment benefits.

Action Item: ***Consider GST/HST on taxable employment benefits.***

GIFTING TAX SHELTER: Settlement Letters Offered by CRA

CRA has commented on **settlement offers granted to certain taxpayers** who have filed Objections with respect to denied charitable contributions made through **gifting tax shelters**.

The **settlement offers** note that if the **terms are accepted**:

- the Objection would be resolved, and the return would be reassessed; and,
- acceptance would conclude the dispute process.

If the **offer is refused**:

- CRA will take further action on the taxpayer's Objection without advance notice;
- CRA will maintain its position that the taxpayer is not entitled to the donation tax credit in question; and,
- in most cases, the next step would be to pursue the matter before the Tax Court of Canada.

CRA has noted that they are **continuing to issue these letters** and may contact the taxpayer in writing in the coming months to resolve some of these Objections.

It appears that CRA may allow the **cash** portion of the claim if it is **at least 20% of the total donation** amount for which the tax credit was claimed.

Action Item: ***If you are involved in a gifting tax shelter, inform us as there may be a settlement option available.***

RESOURCE FOR AMERICANS ABROAD: Check this Website

American Citizens Abroad is a **non-profit organization** which aims to represent Americans living abroad. The organization has a network of individuals spanning more than 60 countries.

www.americansabroad.org provides a wide range of information on topics such as **taxes, banking, voting, citizenship, social security, FATCA** (Foreign Account Tax Compliance Act), the **FBAR** (Foreign Bank Account Report), **Medicare,** and **healthcare**.

Citizenship Requirement FAQs and **Table of Transmission Requirements** are also available, both of which can assist in determining whether an individual is a U.S. Citizen.

Action Item: ***Check out this useful resource for Americans in Canada or abroad.***

FEDERAL NOT-FOR-PROFIT CORPORATIONS ACT: Did You Miss the Transition?

Industry Canada published a list of **Frequently Asked Questions** to assist **corporations incorporated** under Part II of the Canada Corporations Act who were required to **continue under** the new Act (**Canada Not-For-Profit Corporations Act**) but have not yet done so. Continuation under the new Act was to be done by October 17, 2014.

The website noted that a corporation can **still transition after the deadline** as long as the corporation has not been dissolved. A **Transition Guide** is available on the website.

Action Item: ***Federally incorporated NPOs should ensure, if appropriate, that they correctly continued under the new Act.***

DISTRIBUTING ESTATE PROPERTY: An Executor may be Personally Liable for the Estate's Tax Bill!

In an August 8, 2014 **Technical Interpretation,** CRA reminded taxpayers that an **Executor** should obtain a **Clearance Certificate before distributing property** under their control.

The Certificate attests that **all amounts** payable by the Estate have either been **paid** or the Minister has accepted security for such amounts. If the Executor distributes the Estate's property **without first obtaining a Clearance Certificate**, the **Executor** may be **personally liable** for amounts that are outstanding to the Government.

The Clearance Certificate protects the Executor only in the above-noted capacity. CRA can still **pursue** the **beneficiaries** of the Estate for any **unpaid taxes** even where a Clearance Certificate is issued.

Action Item: ***Executors should consider obtaining a Clearance Certificate to avoid personal liability.***

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

No individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents.

For any questions… give us a call.